

December 2014

# PRIM Board Update



PENSION RESERVES  
INVESTMENT  
MANAGEMENT BOARD

## Massachusetts Pension Reserves Investment Management Board

### Market Snapshot for December 2014

Economic data continued to be mixed as the curtain closed on calendar year 2014. On the positive side, U.S. Gross Domestic Product (GDP) was revised to 5.0% from 3.9% for the third quarter (3Q14), posting its strongest growth since September 2003. The Conference Board Leading Economic Index (LEI) for the U.S. continued to increase, and unemployment declined for the sixth consecutive month to 5.8%. On the negative side, real wage growth remained low in December, and the U.S. Purchasing Managers Index (PMI) fell to 55.5, a 6-month low.

On December 17<sup>th</sup>, in her last press conference of the year, Federal Reserve Chair Janet Yellen announced that economic activity was gaining at a moderate pace and that the Federal Open Market Committee (FOMC) would be “patient in beginning to normalize the stance of monetary policy,” i.e., raise interest rates. Equities exhibited moderate volatility as the VIX rose to 19.2 on the last day of December, below the 10 year average of 20.1. Oil prices fell to \$53.3 a barrel on OPEC’s decision not to lower the production ceiling combined with the largest U.S. output in thirty years; 2014 marked crude’s worst year since the 2008 global financial crisis. The U.S. Dollar (USD) appreciated 1.7% in December versus major currencies.

U.S. Equities were led by small caps, up 2.9% in December. Low gas prices continued to bolster consumer confidence and consumer spending. Large caps fell 0.3%, as a strong dollar led to weak sales abroad. International equities slid 3.4%. European equities declined 4.3% due to the continued slide of oil prices, which added volatility to the markets and hurt shares of global energy producers and companies with exposure to Russia. Japanese equities returned -1.4% due to pessimism surrounding the Japanese government’s recent approval of a \$29 billion stimulus package to boost the economy.

Emerging markets equities fell 4.6% in December. In Brazil, equities returned -11.1%, as investors faced headwinds from a strengthening dollar and a corruption scandal at Petrobras. Chinese stocks rose 1.2% after a late month surge, as investors took comfort in continued stimulus measures and high-profile merger and acquisition (M&A) activity. Russian equities fell meaningfully during the month, down 23.2%, as did the Ruble, down 17.5%. Russia took major steps in December to defend its currency by increasing interest rates by 6.5%.

Long Treasury rates rallied in December while most other rates sold off: 30-year yields fell 14 bps to 2.75%; 10-year yields were unchanged at 2.17%, and 2-year and 5-year

yields were 20 and 17 bps higher, respectively. (Price and yield move in the opposite direction.)

The 20+ Year STRIPS Index rose 5.5% in December, and has risen 46.4% for the full calendar-year 2014. Since PRIM’s initial funding in April of 2014, the 20+ Year STRIPS portfolio is up 29.9%, versus a 3.7% return for the Barclays Capital Aggregate Bond Index over the same period. Investor demand drove the strong STRIPS return resulting from: lower inflation expectations; the relative attractiveness of U.S. Treasury (UST) yields compared to German Bunds and Japanese Government Bonds (JGBs); and continued geopolitical risk.

Credit spreads continued to widen in December, indicating a change in investor sentiment for riskier assets.

Emerging market debt (EMD) continued to underperform. U.S. Dollar denominated EMD fell 2.9% in December, while EMD local currency returned -5.9%. EM foreign currency exchange was negative across the board as the U.S. Dollar strengthened. Low oil prices, geopolitical risk, and Western sanctions on Russia prohibiting external borrowing have exacerbated downward pressure on non U.S. currencies.

**PRIT FUND ASSETS: \$60,719,362,000**

### PRIT Core Fund Recap – December 31, 2014

Portfolio	Month	4 <sup>th</sup> QTR	1-Year
PRIT Core Total	0.23%	2.08%	8.15%
U.S. Equity	0.09%	5.17%	11.72%
International Equity	-2.60%	-2.84%	-3.56%
Emerging Markets Equity	-4.28%	-3.79%	-1.91%
Core Fixed Income	2.65%	7.53%	15.23%
Public Value Added FI*	-3.17%	-2.67%	-0.20%
Total Value Added FI**	-2.31%	-1.99%	3.00%
Private Equity	2.35%	1.95%	20.06%
Core Real Estate	3.09%	5.66%	14.56%
Timber/Natural Resources	3.59%	0.02%	5.53%
Hedge Funds (net of fees)	0.32%	1.18%	5.63%

Returns are gross of fees unless otherwise noted. Timber/Natural Resources and Total Value-Added Fixed Income sleeves are currently not available through Segmentation; however, the \*Public Value Added Fixed Income sleeve is available as of April 1, 2013. \*\*Total Value-Added FI includes return of Public Value-Added FI. Private Equity is available to Segmented Systems through the Vintage Year Program.

## Market Recap – December 31, 2014

### Global Equity Markets

#### U.S. Equities:

Index	Month	4 <sup>th</sup> QTR	1-Year
S&P 500	-0.25%	4.93%	13.69%
Russell 2000 Growth	2.97%	10.06%	5.60%
Russell 2000 Value	2.73%	9.40%	4.22%
Russell 2500 Growth	1.27%	7.49%	7.05%
Russell 2500	1.36%	6.77%	7.07%

#### International Equities:

Index	Month	4 <sup>th</sup> QTR	1-Year
Custom World IMI Ex-US	-3.15%	-3.60%	-4.23%
MSCI Emerging Mkts. IMI	-4.21%	-4.26%	-1.23%

### Fixed Income

Index	Month	4 <sup>th</sup> QTR	1-Year
Barclays Aggregate	0.09%	1.79%	5.97%
ML High Yield Master II	-1.47%	-1.06%	2.51%

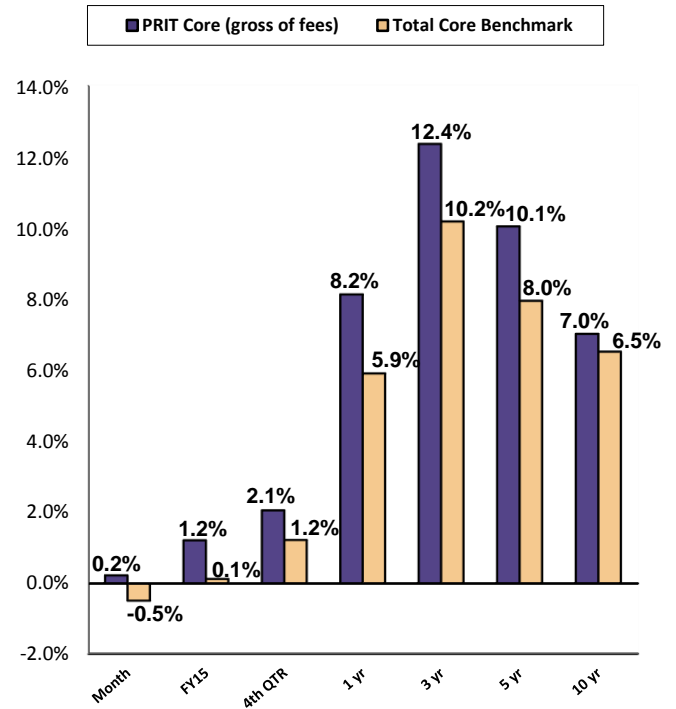
### Real Estate

NCREIF 1-Qtr Lag Private	2.63%	2.63%	11.26%
FTSE EPRA NAREIT Global	0.45%	8.06%	15.76%

### Hedge Funds

Index	Month	4 <sup>th</sup> QTR	1-Year
HFRI Fund of Funds	0.32%	0.93%	3.35%

## PRIT Core Fund as of 12/31/2014



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**PENSION RESERVES INVESTMENT TRUST**  
**SUMMARY OF PLAN PERFORMANCE**  
**RATES OF RETURN (GROSS OF FEES)**  
**Periods Ending December 31, 2014**

	NAV \$ (M)	Long Term Target Allocation %	Actual Allocation %	Month	QTD	FY '15	1 Year	3 Year	5 Year	10 Year	Since Inception
<b>GLOBAL EQUITY</b>	25,238,622	43.0%	41.7%	-1.63	0.61	-2.63	3.41	14.68	10.10	6.40	5.61
<b>CORE FIXED INCOME</b>	9,278,772	13.0%	15.3%	2.65	7.53	9.37	15.23	6.00	6.70	5.48	7.93
<b>VALUE-ADDED FIXED INCOME</b>	5,017,871	10.0%	8.3%	-2.31	-1.99	-3.34	3.00	7.06	8.53	7.95	9.10
<b>PRIVATE EQUITY</b>	6,700,561	10.0%	11.1%	2.35	1.95	5.75	20.06	18.98	18.17	17.66	14.50
<b>REAL ESTATE</b>	6,018,606	10.0%	9.9%	3.09	5.66	6.46	14.56	13.22	12.89	9.14	6.35
<b>TIMBER/NATURAL RESOURCES</b>	2,384,261	4.0%	3.9%	3.59	0.02	-0.26	5.53	6.25	5.59	7.33	8.52
<b>HEDGE FUNDS (NET OF FEES)</b>	5,571,069	10.0%	9.2%	0.32	1.18	1.07	5.63	8.85	5.93	4.79	5.03
<b>PORTABLE ALPHA WIND DOWN (NET OF FEES)</b>	44,205	0.0%	0.1%	0.56	0.12	1.16	-0.72	-1.91	-0.34		-5.35
<b>OVERLAY</b>	292,204	0.0%	0.5%	-0.22	2.55	1.40	6.60				8.75
<b>TOTAL CORE</b>	<b>60,546,172</b>	<b>100%</b>	<b>100%</b>	<b>0.23</b>	<b>2.08</b>	<b>1.23</b>	<b>8.15</b>	<b>12.38</b>	<b>10.06</b>	<b>7.04</b>	<b>9.64</b>
<i>INTERIM BENCHMARK (target allocation without private equity benchmark) <sup>1</sup></i>				-0.34	1.19	0.24	6.97	11.25	8.96	6.85	10.17
<i>TOTAL CORE BENCHMARK (actual allocation with private equity benchmark) <sup>2</sup></i>				-0.49	1.24	0.13	5.93	10.20	7.97	6.54	10.06
<b>PARTICIPANTS CASH</b>	129,137			0.01	0.03	0.06	0.12	0.14	0.17	1.68	4.09
<b>TEACHERS' AND EMPLOYEES' CASH</b>	44,053			0.01	0.03	0.06	0.11	0.14	0.17	1.42	2.86
<b>TOTAL FUND</b>	<b>60,719,362</b>			<b>0.23</b>	<b>2.07</b>	<b>1.22</b>	<b>8.12</b>	<b>12.33</b>	<b>10.02</b>	<b>7.02</b>	<b>9.70</b>